

FAQs for the Enterprise 11th District COFI Replacement Index and Enterprise 11th District COFI Institutional Replacement Index

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Summary of Changes

The table below details the list of changes since the June 2021 version of the FAQs published on the Fannie Mae and Freddie Mac websites.

Section	Summary of change
October 2021	
Single Family	<p>Q4. Updated to include CMOs. Added that Fannie Mae’s CMOs tied to COFI are indexed to LIBOR (SOFR).</p> <p>Q5. Reworded A. to reflect that the 2 indices will have the same value at the end of the 1-year transition period.</p> <p>Q6, Q7, Q8, Q9 (Activity 4 & 5), Q11: Changed, “Enterprise 11th District COFI Replacement Indices” to “replacement indices” for reducing repeated use of the full name of the replacement indices.</p> <p>Q7: New FAQ to address use of the COFI replacement indices for non-agency legacy financial instruments.</p> <p>Q8: New FAQ to address availability of the replacement indices website with test data.</p> <p>Q9 (Activity 3): Added completion date (Q4 2021) to develop and publish new webpage hosting new indices. Added completed actions under completed dates.</p> <p>Q12. Changed to “one-month LIBOR” from “LIBOR”.</p>

Single-Family

Q1: Why is the 11th District Monthly Weighted Average Cost of Funds Index (COFI) being retired?

A: [The Federal Home Loan Bank of San Francisco announced](#) that it will stop publishing COFI by January 2022 (for the December 2021 rate) because of the significant decline in the number of financial institutions eligible to report the data used to calculate the indices.

Q2: When will COFI retire?

A: The last date for publication of the COFI index by the Federal Home Loan Bank of San Francisco is January 31, 2022 (for the December 2021 rate). The Enterprise 11th District COFI Replacement Index and the Enterprise 11th District COFI Institutional Replacement Index will be published starting February 28, 2022 for the January 2022 rate.

Q3: What products at Freddie Mac/Fannie Mae are impacted by the COFI retirement?

A: Single Family and Multifamily cash and MBS/PC loans are impacted, as well as CMOs. Both GSEs only have a *de minimis* population of Multifamily COFI loans so there is minimal impact. Freddie Mac and Fannie Mae no longer accept the delivery of ARM mortgage products indexed to COFI. There are no impacts to our Credit Risk Transfer securities.

Q4: What is the replacement index for mortgage loans and CMOs that use COFI?

A: Based on current comparability analysis, and based on a good faith determination, the GSEs have selected the Federal Cost of Funds Index (Federal COFI) plus a spread adjustment, as the replacement index. The purpose of the spread adjustment is to minimize or eliminate any value transfer between investors and consumers. The methodology for the spread adjustment is similar to the spread adjustment methodology that was recommended by the Alternative Reference Rates Committee (“ARRC”) for the LIBOR transition in June 2020. Like the [ARRC spread adjustment](#) methodology, the COFI spread adjustment methodology includes a phased-in adjustment (1-year transition period) for consumer loans only. As a result, two replacement indices will be published – one for Single Family (consumer) loans and one for Multifamily loans and Freddie Mac CMOs. For information on Freddie Mac and Fannie Mae CMOs, please refer to Q12.

Further ARRC announcements regarding spread adjustment methodology will be reviewed and considered as well as any relevant legislative or regulatory developments.

Q5: How will end users know whether the index contains the 1-year transition period for consumer loans?

A: The replacement index for Single Family loans will be called “Enterprise 11th District COFI Replacement Index” and the replacement index for Multifamily loans and Freddie Mac CMOs will be called “Enterprise 11th District COFI Institutional Replacement Index”. The publication of two indices will remain in place even after the 1-year transition period of the Consumer index, at which time the indices will reflect the same value. Consequently, the users of each index will not need to make another transition after the 1-year transition period ends. Refer to the COFI Playbook for further information about the spread adjustment methodology.

Q6: Where will the replacement indices be published?

A: Freddie Mac intends to publish the replacement indices on its website starting February 28, 2022.

The replacement indices will be made available for use on Freddie Mac and Fannie Mae owned or guaranteed financial instruments, subject to the Enterprise 11th District COFI Replacement Index Notice And Disclaimer and the terms, conditions and restrictions set forth in applicable contracts pertaining to the Replacement Indices. The replacement indices are not created, calculated or published by or at the direction of, nor are the replacement indices or the decision that such indices are appropriate for use in any financial instrument, in any way associated or affiliated with, the Federal Home Loan Bank of San Francisco. The replacement indices may not be used on any new financial instrument created or entered into on or after February 28, 2022.

For more information on Freddie Mac’s Federal COFI, visit Freddie Mac’s [website](#).

Q7: May the replacement indices be used for legacy financial instruments other than those owned or guaranteed by the GSEs?

A: Entities other than the GSEs that choose to use the replacement indices on their legacy financial instruments do so “as is,” at their own risk, and subject to Freddie Mac’s COFI Replacement Index [Disclaimer](#) (Disclaimer). The replacement indices may not be used on newly issued financial instruments as set forth in the Disclaimer.

Q8: Will the replacement indices website be available to Servicers with test data for operational readiness testing purposes prior to February 28, 2022?

A: Freddie Mac has made available a website with downloadable test data, including a training video that will serve as a job aid. The rates in the test data contain hypothetical values in a “Year, Month and Rate” format. The test data will be updated monthly until January 31, 2022. The website, which has separate sections for each index, can be accessed at [FreddieMac.com](#) effective October 20, 2021.

Please note: Freddie Mac will begin publishing the replacement indices officially starting February 28, 2022 (for the month of January 2022). Downloadable data provided prior to February 28, 2022 are for test purposes only and should not be used in connection with any rate change.

Q9: What is Freddie Mac/Fannie Mae doing to get ready for the transition away from COFI?

A: Fannie Mae and Freddie Mac are working on a number of tasks to ensure a smooth transition. Some of those are listed below:

#	Activity	Expected Completion Date
1	<p>Choosing names for the new indices and sending an announcement of this information to impacted Servicers and informing them about high level timing of the conversion. The new names are:</p> <ul style="list-style-type: none"> • Enterprise 11th District COFI Replacement Index, and • Enterprise 11th District COFI Institutional Replacement Index. 	<p>Completed Q2 2021</p> <ul style="list-style-type: none"> • Servicer Guide Bulletin dated 6/9/21 • FAQs & Playbook update dated 7/27/21
2	<p>Actively engaging impacted stakeholders (servicers, regulators and investors) on a regular basis to provide information to prepare for operational readiness and borrower notification of the index change and its impact.</p>	<p>Q1 2021 and onward.</p> <ul style="list-style-type: none"> • Emails to Servicers to review notes for non-standard language (week of 7th June) • Response to Servicers on use of replacement index for notes with non-standard language (Week of 9th August) • Meetings with 3 Servicers on margin changes operational process (August 12, 18 & 25)
3	<p>Develop and publish new webpage hosting new indices.</p>	<p>Completed Q4 2021</p> <ul style="list-style-type: none"> • FAQs & Playbook update dated 10/20/21 • Servicer Guide Bulletin dated 10/20/21
4	<p>Develop internal capability to support the replacement indices.</p>	<p>Q4 2021</p>
5	<p>Convert legacy portfolio to replacement indices.</p>	<p>Q1 2022 and until all COFI ARMs have been transitioned to the relevant Replacement Index based on the interest rate adjustment date and the lookback period.</p>
6	<p>Updating Fannie Mae MBS Subtypes (MBS data construct that identifies the ARM characteristics of the underlying collateral) with the replacement index description.</p>	<p>Q1 2022</p>
7	<p>Making necessary changes to be operationally ready to support the new replacement indices.</p>	<p>Q1 2022</p>

Q10: Why were the Enterprise 11th District COFI Replacement Index and the Enterprise 11th District COFI Institutional Replacement Index selected as the “replacement indices”?

A: Freddie Mac and Fannie Mae considered several potential alternative indices with the objectives of, among others, finding a fair, reasonable and comparable substitute index (by reviewing composition, tenors, and correlation) that met the following criteria:

- Based upon reliable, broad-based sources of information
- Based on instruments with a range of maturities
- High correlation to the original index

A spread-adjusted Federal COFI was determined to be the most fair, reasonable and comparable substitute index for COFI. This determination was made in consultation with FHFA following a review of 13 other indices, including the one-month simple average SOFR and 30-day average SOFR indices.

The GSEs will reassess Federal COFI closer to the actual COFI cessation to ensure that it remains the most comparable index.

The GSEs’ selection of spread-adjusted Federal COFI as the replacement index for COFI is not an indication of the GSEs’ intentions with respect to the replacement index for LIBOR-indexed financial instruments.

Q11: What impacts do you foresee to MBS/PCs securities with the transition of COFI to a successor index?

A: Freddie Mac and Fannie Mae will update the index codes (as referenced in our disclosures) and subtypes (Fannie Mae only) to reflect the replacement indices.

Q12: Have you identified a successor index for Freddie Mac and Fannie Mae CMOs that use COFI?

A: Outstanding Freddie Mac CMOs indexed to COFI have fallback language indicating that, if the Federal Home Loan Bank of San Francisco fails to publish COFI for a period of 65 days and does not publish or designate a replacement index, then Freddie Mac is required to select an index that performs in a manner substantially similar to COFI. Based on current comparability analysis, and based on a good faith determination, Freddie Mac has selected the Enterprise 11th District COFI Institutional Replacement Index as the replacement index for its COFI-indexed CMOs.

Outstanding Fannie Mae CMOs tied to COFI contain waterfall fallback language in the governing prospectuses identifying the fallback index for interest accruals as 1) the National Median Cost of Funds Index published by the Office of Thrift Supervision and then 2) LIBOR. The National Median Cost of Funds Index was discontinued in February 2012. Thus, the fallback index for all outstanding COFI-indexed Fannie Mae CMOs is one-month LIBOR. Since the anticipated index cessation date for one-month LIBOR is June 30, 2023, it is currently anticipated that these COFI-indexed CMOs would switch from COFI to LIBOR (SOFR) after COFI is no longer published. Subsequently those CMOs would switch to a replacement index for LIBOR (SOFR) after June 30, 2023.

Q13: What if I have Single-Family COFI ARM Notes that contain non-standard index replacement language?

A: Most Single-Family (consumer) COFI ARM Notes contain standard index replacement language stating that “If the Index is no longer available, the Note Holder will choose a new index which is based upon comparable information.” Some servicers may also service legacy COFI loans that were closed on non-standard documents. The GSEs have required their Single-Family COFI ARM servicers to identify loans closed on non-standard documents that provide for variations in selecting a replacement index, or in calculating the margin after COFI has been retired, and to bring those to applicable GSE’s attention for further instruction. There may be operational or other impacts based on these non-standard documents.